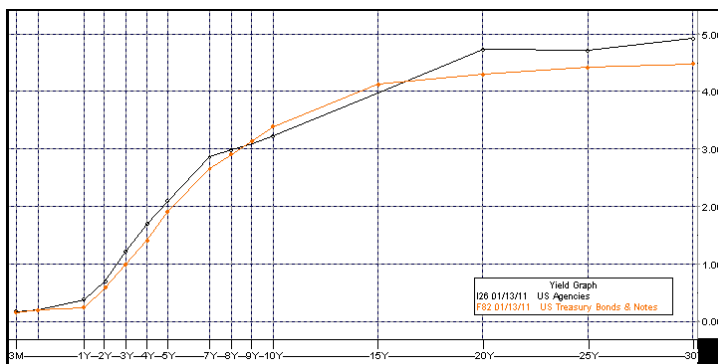


Inflationary Pressures Increase in December but Remain Subdued

The Producer Price Index (PPI) rose more than expected in December with an increase of 1.1 percent for the month, the most in 11 months. PPI increased 4.0 percent in 2010. Excluding food and energy costs, known as the core index, PPI increased by a mere 1.3 percent last year. The Consumer Price Index (CPI) also rose more than expected in December with an increase of 0.5 percent for the month, the most since June 2009. CPI increased 1.5 percent in 2010 while the core CPI increased only 0.8 percent. Inflation remains in check, giving the Federal Reserve flexibility to keep interest rates low.

Yield Curves (Agency vs. Treasury)



Source: Bloomberg

Our Methodology

The Federal Open Market Committee (FOMC) continues to keep the fed funds target rate at the 0 to 0.25 percent target as we enter 2011. In addition Federal Reserve Chairman Ben Bernanke, in testimony to the Senate Banking Committee on January 7th, defended the FOMC's plan to buy \$600 billion of Treasuries as part of the central bank's effort to reduce consumer lending rates and combat deflation. Mr. Bernanke also stated that "it could take four to five more years for the job market to normalize fully" as unemployment remains above 9 percent. Economic reports continued to point to a checkmark-shaped recovery as 2010 drew to a close. The median estimate of 2011 GDP growth from Bloomberg's survey of over 80 economists has increased to 2.8 percent from less than 1.8 percent in June of 2010. Although the economy continues to improve, the pace of recovery limits the prospects for job growth and higher short-term interest rates at the present time. As a result, the market is not anticipating a rise in the fed funds target rate until late in 2011 or early in 2012. We expect the yield on money-market type investments to remain at very low levels. We will continue to concentrate on high quality, liquid investments while adhering to our long standing objectives of **safety**, **liquidity**, and **yield**.

Selected Current Economic Data

DATA	PERIOD	
GDP QoQ	Q3 '10	2.6%
GDP YoY	Q3 '10	3.2%
PPI YoY	Dec '10	4.0%
CPI YoY	Dec '10	1.5%
Jobless Rate	Dec '10	9.4%
Fed Funds Target	Dec 14 '10	0 - 0.25%

Source: Bloomberg

Treasury Yields

TERM	1/13/11	1/6/11	CHANGE
3-Month	0.15%	0.14%	0.01%
6-Month	0.18%	0.18%	0.00%
1-Year	0.24%	0.29%	-0.05%

Source: Bloomberg

Agency Yields

TERM	1/13/11	1/6/11	CHANGE
3-Month	0.17%	0.16%	0.01%
6-Month	0.22%	0.21%	0.01%
1-Year	0.36%	0.41%	-0.05%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1 Dealers)

TERM	1/13/11	1/6/11	CHANGE
1-Month	0.28%	0.29%	-0.01%
3-Month	0.37%	0.36%	0.01%
6-Month	0.50%	0.46%	0.04%
9-Month	0.56%	0.57%	-0.01%

Source: Bloomberg

The opinions expressed are those of the TrustIndiana Administrator and are subject to change without notice.